MINNESOTA STATE UNIVERSITY, MANKATO

ANNUAL FINANCIAL REPORT

For the Year Ended June 30, 2002

MINNESOTA STATE UNIVERSITY MANKATO

A member of the Minnesota State Colleges and Universities System

MINNESOTA STATE UNIVERSITY, MANKATO

MEMBER OF MINNESOTA STATE COLLEGES AND UNIVERSITIES

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED JUNE 30, 2002

Prepared by:

Minnesota State University, Mankato
236 Wigley Administration Center
Mankato, MN 56001

Office of the Chancellor
Minnesota State Colleges and Universities
500 World Trade Center
30 East 7th Street
St. Paul, Minnesota 55101

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MINNESOTA STATE UNIVERSITY, MANKATO

ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2002

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INTRODUCTION

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INTRODUCTION

MINNESOTA STATE UNIVERSITY MANKATO

October 30, 2002

Chancellor James H. McCormick
Members of the Board of Trustees
Minnesota State Colleges and Universities
500 World Trade Center
30 East 7th Street
St. Paul, MN 55101

Dear Chancellor McCormick and Trustees:

I am pleased to submit to you the audited annual financial statements for Minnesota State University, Mankato for the fiscal year ending June 30, 2002. This report includes the financial statements and disclosures necessary to accurately present the financial condition and results of operations for the year. The financial statements are presented in accordance with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

Minnesota State University, Mankato is one of thirty-four colleges and universities in the Minnesota State Colleges and Universities (MnSCU) system. The University is governed by the Board of Trustees, which is comprised of community and business leaders and students from throughout the State. The MnSCU system is led by Chancellor James H. McCormick, who was appointed by the Board of Trustees and, who in turn, appoints a President to oversee the operations of the University. For the period ending June 30, 2002, Minnesota State University, Mankato operated under Interim President Karen Boubel. I was appointed by the Board of Trustees on February 21, 2002 and began serving as President of the University on July 1, 2002.

Minnesota State University, Mankato was established by the legislature in 1868 as the second normal school in Minnesota. It has gone from Mankato Normal School to Minnesota State University, Mankato with several name changes throughout the years. In the 1920s, our name was changed to Mankato State Teachers College, and in the 1950s, our name was again changed to reflect that we had become a multi-purpose area college. In 1957, we were named Mankato State College, in later decades we became Mankato State University and are now proudly named Minnesota State University, Mankato.

The original course of study as Mankato Normal School was a two-year program. Our programs continued to grow and develop and in 1953, we were authorized to grant a master's degree in teacher education. In 1963, Mankato State College was authorized to confer a Master of Arts degree in programs other than teacher education. In the same year, the first of several bills was introduced in the legislature to make the institution a state university.

Originally, Mankato Normal School was located in an area referred to as "lower campus." As the institution grew and more buildings were needed, the campus was expanded to "upper campus" and over the years programs were moved to new facilities on the upper campus as space became

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available. In 1979, the lower campus was closed and all university programs and services were for the first time on one campus.

Minnesota State University, Mankato is a comprehensive public institution of higher learning serving approximately 13,275 students including 1,600 graduate and professional students. Nearly 600 international students from 67 countries attend the University. The University employs approximately 1,300 faculty and staff members in support of its mission which is to promote learning through effective undergraduate and graduate teaching, scholarship and research in service to the state, the region, and the global community.

The academic programs at the University are organized within seven colleges. They are: Allied Health and Nursing; Arts and Humanities; Business; Education; Graduate Studies and Research; Science, Engineering, and Technology; and Social and Behavioral Sciences. The University offers students opportunities for bachelor's, master's, associate's, and specialist degrees, as well as graduate certificates. Students can choose from 67 graduate and 150 undergraduate programs of study, including 16 pre-professional programs. The majority of the university's offerings are made in the traditional on-campus mode. However, the University also offers over 250 courses in more than 35 locations including the Twin Cities metropolitan area and rural communities in out-state Minnesota. The university is accredited by 24 national accrediting agencies including the North Central Association of Colleges, which has commended the University's leadership and vision.

In addition to expansive academic programs, the university provides students with many opportunities for social, cultural, and professional growth. The university is a member of NCAA Division II and belongs to the North Central Intercollegiate Conference. Ice Hockey for men and women has NCAA Division I classification and plays in the Western Collegiate Hockey Association. Twenty intercollegiate athletic programs are offered for men (10) and women (10). Students can also participate in many campus recreation and intramural activities. The university annually hosts many international festivals and other cultural events serving to further enrich the student experience. Nearly 200 academic student organizations, student interest groups, and honorary and professional fraternities and sororities provide even more opportunities for student growth.

As the top fundraiser of private funds in the Minnesota State Colleges and Universities system, the university and the MSU Foundation continue to work with alumni, businesses, and other university supporters to improve opportunities for students. Nearly $39 million in private funds were raised between 1997 and 2002, approximately $4 million over the campaign's goal.

Over the past few years, the University has made significant strides using public and private funding to improve its facilities and opportunities for students. These improvements include the following.

- Newly renovated Myers Field House with an 8-lane NCAA-sanctioned track ($11 million)

- Taylor Center featuring the 4,800 seat Bresnan Arena for Intercollegiate basketball, volleyball, and wrestling; commencement ceremonies; high school tournaments; major concerts, and lectures ($17 million, privately funded)

- Andreas Theatre ($3.6 million, privately funded)

- Centennial Student Union Addition ($3.5 million)

Within the financial statements, which were audited by Larsen, Allen, Weishair, & Co., LLP, you will find a Statement of Net Assets, a Statement of Revenue, Expense and Changes in Net Assets, and a Statement of Cash Flows. You will see that the University ended fiscal year 2002 with total net assets of $104.76 million. The change in net assets from operations during fiscal year 2002 was an increase of $6.1 million. For a summary review and explanation of the financial statements please review the Management's Discussion and Analysis section of this report.

This is the first financial statement audit of Minnesota State University, Mankato as a separate institution of the Minnesota State Colleges and Universities (MnSCU) since MnSCU's formation, representing a significant milestone. I would also like to note that the audit opinion is without qualification, a testimony to the efforts of each employee with responsibility for financial information.

The responsibility for the accuracy, reliability, fairness, and completeness of the information in this report rests with Finance and Administration staff from Minnesota State University, Mankato and Finance Division staff from the Chancellor's office. The completion of this report truly represents a combined effort, and we rely on both units in providing this assurance. Accordingly, the many people who assisted in this effort are deserving of our appreciation.

Respectfully submitted,

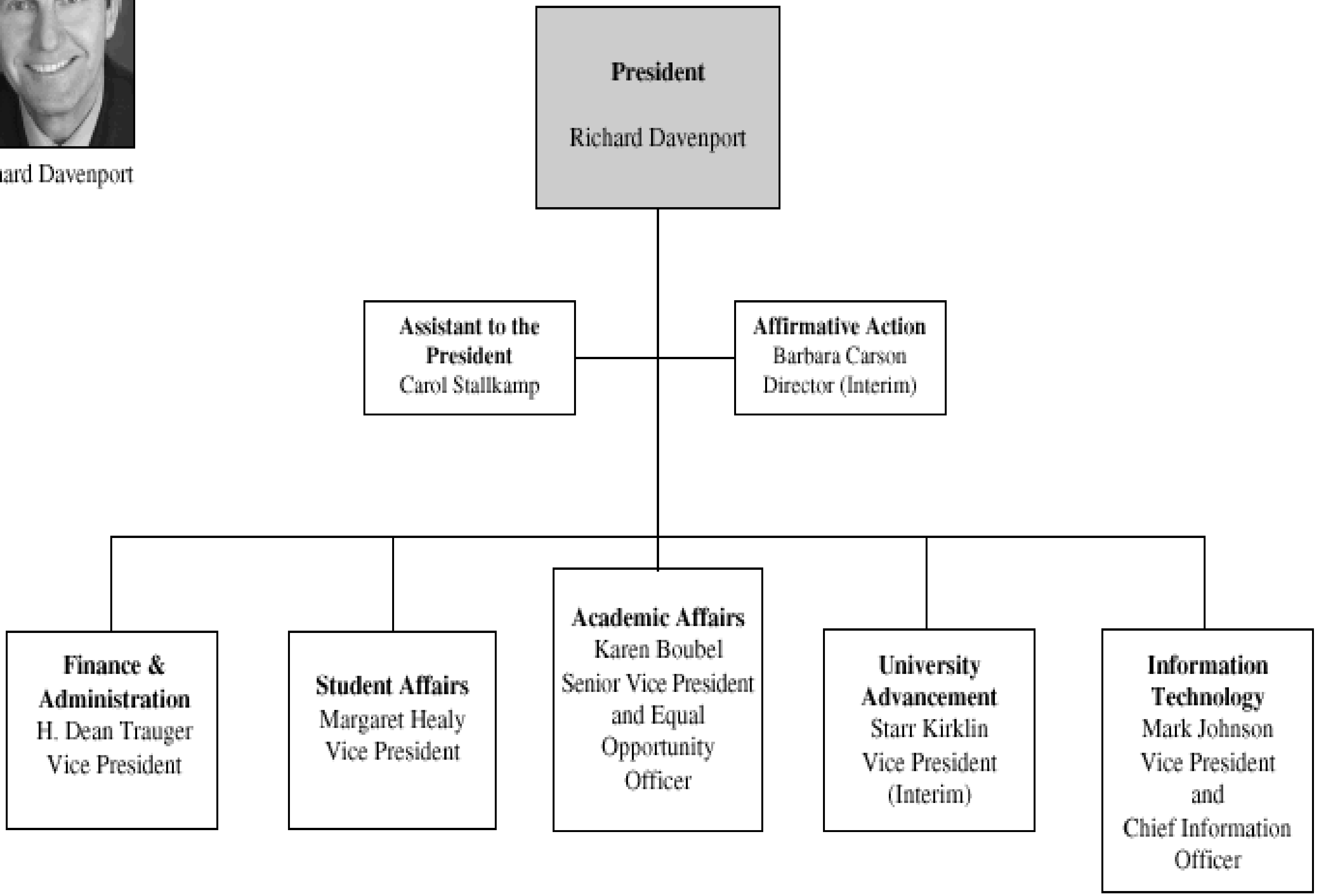
Richard Davenport
President

Enclosure

Richard Davenport

University Administration Organization

Minnesota State University, Mankato
September 1, 2002



The financial activity of Minnesota State University, Mankato is included in this report. The university is one of 34 colleges and universities included in the Minnesota State Colleges and Universities' annual financial report which is issued separately.

The university's portion of the Revenue Fund is also included in this report. The Revenue Fund activity is included both in the Minnesota State Colleges and Universities' annual financial report and in a separately issued Revenue Fund annual financial report.

All financial activity of Minnesota State Colleges and Universities is included in the State of Minnesota comprehensive annual financial report. A separately issued schedule of expenditures of federal awards will be available at a later date.

FINANCIAL SECTION

LarsonAllen
Weishair & Co., LLP
ACHIEVE THE DESIRED EFFECT

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Minnesota State Colleges and Universities
700 World Trade Center
30 East Seventh Street
St. Paul, Minnesota 55101

We have audited the accompanying financial statements of Minnesota State University – Mankato, a campus of Minnesota State Colleges and Universities, as of and for the year ended June 30, 2002, as listed in the table of contents. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Minnesota State University – Mankato as of June 30, 2002, and the respective changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1 to the financial statements, the University has adopted the provisions of Government Accounting Standards Board Statement No. 35 for the fiscal year ended June 30, 2002.

The accompanying *Management's Discussion and Analysis,* as listed in the table of contents, is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards,* we have also issued our report dated October 11, 2002, on our consideration of the University's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements. The accompanying supplementary section, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

Larson, Allen, Weishair & Co., LLP

LARSON, ALLEN, WEISHAIR & CO., LLP

October 11, 2002

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MANAGEMENT'S DISCUSSION AND ANALYSIS

INTRODUCTION

The following discussion and analysis provides an overview of the financial position and activities of Minnesota State University, Mankato, member of Minnesota State Colleges and Universities for the year ended June 30, 2002. This discussion has been prepared by management and should be read in conjunction with the financial statements and the notes, which follow this section.

Minnesota State University, Mankato is one of 34 colleges and universities comprising Minnesota State Colleges and Universities. Minnesota State Colleges and Universities is governed by a 15 member Board of Trustees appointed by the governor. Twelve trustees serve six-year terms, eight representing each of Minnesota's congressional districts and four serving at large. Three student trustees – one from a state university, one from a community college and one from a technical college – serve two-year terms. The Board of Trustees selects the chancellor and has broad policy responsibility for system planning, academic programs, fiscal management, personnel, admissions requirements, tuition and fees, and policies and procedures.

The university is a comprehensive public institution of higher learning with approximately 13,275 students including 1,600 graduate and professional students. Approximately 1,300 faculty and staff members are employed by the university.

Seven colleges comprise the university's academic programs. The seven colleges are as follows:

* Allied Health and Nursing
* Arts and Humanities
* Business
* Education
* Graduate Studies and Research
* Science, Engineering and Technology
* Social and Behavioral Science

The university offers students opportunities for bachelor's, master's, associate and specialist degrees, as well as graduate certificates. Students can choose from 71 graduate and 150 undergraduate programs of study, including 16 pre-professional programs. The university is accredited by 24 national accrediting agencies including the North Central Association of Colleges, which has commended the university's leadership and vision.

FINANCIAL HIGHLIGHTS

The university's financial position improved during fiscal year 2002 and remained strong at June 30, 2002, with assets of $161.2 million and liabilities of $56.4 million. Net assets, which represent the residual interest in the university's assets after liabilities are deducted is comprised of capital assets, net of related debt, of $93.2 million, restricted assets of $8.1 million, and unrestricted assets of $3.5 million.

The university's total net assets increased by $28.2 million. Approximately 67 percent of this increase is due to the addition of the Taylor Center, a building donated to the university by the Minnesota State University, Mankato Foundation, Inc. The university's debt increased by $29.4 million during the fiscal year. This was due to the issuance of $36.3 million in revenue bonds of which the university was allocated $18.9 million.

USING THE FINANCIAL STATEMENTS

The university's financial report includes three financial statements: the statement of net assets, the statement of revenues, expenses and changes in net assets and the statement of cash flows. These financial statements are prepared in accordance with generally accepted accounting principles (GAAP) as established by the Governmental Accounting Standards Board (GASB). During fiscal year 2002, the university adopted GASB Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*, as amended by GASB Statements No. 37 and No. 38. These statements establish standards for external financial reporting for public colleges and universities and require that financial statements be presented on a consolidated basis to focus on the university as a whole, with resources classified for accounting and reporting purposes into three net asset categories. Previously, financial statements focused on the accountability of individual fund groups rather than on the university as a whole.

Other significant changes to the financial statements are as follows:

* Revenues and expenses are now categorized as either operating or nonoperating. The state appropriation totaling $54 million for the year ended June 30, 2002, is considered nonoperating, as defined by GASB Statement No. 35.

* Summer semester tuition and fees collected but unearned before June 30 are now recorded as deferred revenue. Previously, amounts received were recognized as revenue upon receipt. Such deferred revenues totaled $1.6 million at June 30, 2002.

* Scholarships applied to student accounts are now shown as a reduction of student tuition, fees and room and board revenues. Previously, all scholarships were presented as expenses. For the year ended June 30, 2002, $3.6 million of scholarships were applied to student accounts.

STATEMENT OF NET ASSETS

The statement of net assets presents the financial position of the university at the end of the fiscal year and includes all assets and liabilities of the university. The difference between total assets and total liabilities – net assets – is one indicator of the current financial condition of the university, while the change in net assets is an indicator of whether the overall financial condition has improved or worsened during the year. Capital assets are stated at historical cost less an allowance for depreciation. A summary of the university's assets, liabilities and net assets at June 30, 2002, is as follows:

Current assets	$ 36,701,770
Restricted assets	19,852,721
Noncurrent assets	
Student loans receivable	6,745,729
Capital assets, net	97,878,278
Total assets	161,178,498
Current liabilities	18,753,975
Noncurrent liabilities	37,668,773
Total liabilities	56,422,748
Net assets	$104,755,750

Current unrestricted assets consist primarily of cash, cash equivalents and investments, which totaled $30.6 million at June 30, 2002. This represents approximately three months of operating expenses (excluding depreciation).

Current liabilities consist primarily of accounts and salaries payable. Salaries payable totaled $8.2 million at June 30, 2002. The retroactive pay for fiscal year 2002 resulted in an estimated salaries payable of $1 million. Faculty receiving their salaries over twelve months account for an estimated additional $4.1 million in salaries payable. Deferred revenue is primarily the portion of summer session tuition received but not yet earned. The most recent summer session began on May 20, 2002, and ended July 26, 2002. The tuition revenue was allocated based upon the number of session days in each fiscal year.

CAPITAL AND DEBT ACTIVITIES

One of the critical factors in continuing the quality of the university's academic programs and residential life is the development and renewal of its capital assets. The university continues to implement its long-range plan to modernize its complement of older facilities, balanced with new construction.

Capital outlay totaled $14.7 million in 2002. Capital expenses are primarily comprised of recently completed new buildings, replacement and renovation of existing facilities, as well as significant investments in equipment. Current year capital asset additions were funded through donated capital assets, including the new Taylor Center at $16.5 million, capital appropriations of $5.1 million, and debt proceeds of $1.5 million.

Construction in process at June 30, 2002, totaled $5.3 million and is primarily comprised of construction costs associated with the new Myers Field House.

Bonds payable totaled $3.5 million at June 30, 2002. These bonds were issued in prior years to finance construction of buildings and repairs.

Additional information on capital and debt activities can be found in the notes to the financial statements.

NET ASSETS

Net assets represent the residual interest in the university's assets after liabilities are deducted. The university's net assets at June 30, 2002, are summarized as follows:

Invested in capital assets, net of related debt	$ 93,175,106
Restricted	8,116,689
Unrestricted	3,463,955
Total net assets	$ 104,755,750

Invested in capital assets, net of related debt represent the university's capital assets net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.

Restricted net assets primarily include donations received for specific purposes, bond covenants, debt service, and funds reserved for legislatively mandated purposes.

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

The statement of revenues, expenses and changes in net assets presents the university's results of operations. A summarized statement follows:

Operating revenue:	
Student tuition and fees	$ 48,192,701
Less: scholarship allowances	2,960,076
Net student tuition and fees	45,232,625
Room and board	10,474,328
Less: scholarship allowances	608,000
Net room and board	9,866,328
Other revenue	27,095,076
Total operating revenue	82,194,029
Nonoperating revenue:	
State appropriations	54,027,716
Donated capital asset additions	16,526,710
Capital appropriations	5,141,437
Other	604,838
Total nonoperating revenue	76,300,701
Total revenue	158,494,730
Operating expense:	
Salaries and benefits	84,495,489
Supplies and services	26,259,116
Depreciation	7,536,722
Financial aid	10,157,850
Total operating expense	128,449,177
Nonoperating expense:	
Loss on disposal of capital assets	1,089,885
Grants	133,008
Interest expense	586,064
Total nonoperating expense	1,808,957
Total expense	130,258,134
Increase in net assets	28,236,596
Net assets, beginning of year as restated	76,519,154
Net assets, end of year	$104,755,750

Tuition and state appropriations are the primary sources of funding for the university's academic programs. Tuition revenue increased in fiscal year 2002 as a result of a 13 percent increase in tuition and an increase in enrollment of 4.4 percent. State appropriations increased $4.2 million in 2002. Approximately $2.6 million of this increase came in the form of capital appropriations.

The resources expended for compensation and benefits increased about $3.9 million to $84.5 million in fiscal year 2002. Of this increase, compensation increased about 4.1 percent as a result of annual increases. The related employee benefits increased 9.3 percent reflecting a sharp rise in health care costs.

STATEMENT OF CASH FLOWS

The statement of cash flows provides additional information about the university's financial results by reporting the major sources and uses of cash. A summary of the statement of cash flows for the year ended June 30, 2002, follows:

Cash received from operations	$ 82,705,046
Cash expended for operations	(119,345,744)
Net cash used in operating activities	(36,640,698)
Net cash provided by noncapital financing activities	53,538,772
Net cash provided by capital and related financial activities	9,545,812
Net cash used in investing activities	(3,432,013)
Net increase in cash and cash equivalents	23,011,873
Cash and cash equivalents, beginning of year as restated	19,946,320
Cash and cash equivalents, end of year	$ 42,958,193

The university's cash and cash equivalents increased $23 million mainly due to receiving the proceeds from the recent Revenue Fund bond sale. These funds will be used for future renovations to the residence halls and the student union. The university's significant sources of cash provided by noncapital financing activities, as defined by GASB Statement No. 35, include state appropriations.

ECONOMIC FACTORS THAT WILL AFFECT THE FUTURE

Looking toward the future, management believes that the university is positioned to continue its strong financial condition and level of excellence. However, the university may face challenges in maintaining adequate state appropriation support. An economic downturn in the State of Minnesota has resulted in actual state revenues not keeping up with inflationary pressures. This factor, coupled with student enrollment that has increased by more than 20 percent during the past four years, may result in a serious financial challenge for the university in fiscal years 2004 and 2005.

COST FACTORS OF CONCERN

The cost of the university's health benefits has increased dramatically over the past several years and projections indicate future increases will be in the 14 to 20 percent range annually.

Fiscal year 2002 and 2003 labor agreements for some employee bargaining units have financial expense tails that will require about $1 million be committed to employee salaries before any bargaining takes place on fiscal year 2004 and 2005 employee salary agreements.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of Minnesota State University, Mankato's finances for all those with an interest in the university's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Chief Financial Officer
Minnesota State University, Mankato
236 Wigley Administration Center
Mankato, MN 56001

MINNESOTA STATE UNIVERSITY, MANKATO
STATEMENT OF NET ASSETS
AS OF JUNE 30, 2002

Assets	
Current Assets	
Cash and cash equivalents	$ 28,482,542
Investments	2,068,656
Interest receivable	26,537
Grants receivable	838,320
Accounts receivable, net of allowance for uncollectible of $650,000	1,974,717
Prepaid assets	526,989
Inventory	33,280
Other assets	142,990
Securities lending collateral	2,607,739
Total current assets	36,701,770
Restricted Assets	
Cash and cash equivalents	14,475,651
Investments	5,201,143
Other assets	66,393
Construction in progress	109,534
Total restricted assets	19,852,721
Noncurrent Assets	
Loans receivable, net of allowance for uncollectible of $274,252	6,745,729
Construction in progress	5,146,422
Equipment	26,779,134
Library collections	7,982,819
Buildings and improvements	143,108,477
Land	910,695
Less accumulated depreciation	(86,049,269)
Total noncurrent assets	104,624,007
Total Assets	$ 161,178,498

The notes are an integral part of the financial statements.

Liabilities	
Current Liabilities	
Salaries payable	$ 8,248,923
Accounts payable	4,200,691
Deferred revenue	1,611,572
Funds held in trust	178,176
Notes payable	292,560
Capital lease payable	172,050
Compensated absences payable	1,016,235
Workers' compensation payable	36,651
General obligation bonds payable	230,343
Other liabilities	159,035
Securities lending collateral	2,607,739
Total current liabilities	18,753,975
Noncurrent Liabilities	
Notes payable	218,179
Capital lease payable	622,513
Compensated absences payable	7,785,739
Workers' compensation payable	90,081
Revenue bonds payable	18,920,285
General obligation bonds payable	3,277,060
Capital contributions payable	6,754,916
Total noncurrent liabilities	37,668,773
Total Liabilities	56,422,748
Net Assets	
Invested in capital assets net of related debt	93,175,106
Restricted	
Donations	1,287,121
Perkins loans	812,988
Bond interest earnings	256,558
Capital projects	259,207
Debt service	1,486,158
Faculty contracts	825,927
Legislatively mandated programs	1,072,518
Bond covenants	2,116,212
Unrestricted	3,463,955
Total Net Assets	$ 104,755,750

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MINNESOTA STATE UNIVERSITY, MANKATO
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2002

Operating Revenues	
Tuition, net of scholarship allowance of $2,460,902	$ 37,830,529
Fees, net of scholarship allowance of $499,174	7,402,096
Sales and service, net (net cost of goods sold of $3,485,435)	7,262,837
Room and board, net of scholarship allowance of $608,000	9,866,328
Federal grants	9,518,634
State grants	6,343,043
Private grants	1,189,394
Other income	2,642,095
Student loan income	139,073
Total operating revenues	82,194,029
Operating Expenses	
Salaries	84,495,489
Purchased services	10,079,814
Supplies	6,935,440
Repairs and maintenance	3,358,683
Depreciation and amortization	7,536,722
Financial aid, net of scholarship allowance of $3,568,076	10,157,850
Other expense	5,885,179
Total operating expenses	128,449,177
Operating income (loss)	(46,255,148)
Nonoperating Revenues (Expenses)	
Appropriations	54,027,716
Interest income	604,640
Securities lending income	5,378
Interest expense	(586,064)
Grants to other organizations	(133,008)
Securities lending rebates / fees	(5,180)
Total nonoperating revenue (expenses)	53,913,482
Income (Loss) Before Other Revenues, Expenses, Gains, or Losses	7,658,334
Capital appropriation	5,141,437
Donated capital assets	16,526,710
Gain (loss) on disposal of capital assets	(1,089,885)
Change in net assets	28,236,596
Total Net Assets - Beginning of Year	21,883,124
Cumulative effect of changes in accounting principles	37,107,448
Change in reporting entity	17,528,582
Total Net Assets - Beginning of Year as Restated	76,519,154
Total Net Assets - End of Year	$ 104,755,750

The notes are an integral part of the financial statements.

MINNESOTA STATE UNIVERSITY, MANKATO
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2002

Cash Flows from Operating Activities:	
Cash received from customers	$ 64,745,519
Cash repayment of program loans	1,240,776
Private grants	857,074
State grants	6,343,043
Federal grants	9,518,634
Cash paid to suppliers for goods or services	(25,399,490)
Cash payments to employees	(82,597,135)
Financial aid disbursements	(10,157,850)
Cash payments of program loans	(1,191,269)
Net cash provided (used) by operating activities	(36,640,698)
Cash Flows from Noncapital and Related Financing Activities:	
Appropriations	54,027,716
Other nonoperating revenues	877,508
Other nonoperating expenses	(1,366,452)
Net cash flows from noncapital financing activities	53,538,772
Cash Flows from Capital and Related Financing Activities:	
Investment in capital assets	(14,861,230)
Capital appropriation	5,141,437
Proceeds from borrowing	20,574,778
Interest paid	(586,063)
Repayment of notes	(518,808)
Repayment of revenue bond principle	(204,302)
Net cash flows from capital and related financing activities	9,545,812
Cash Flows from Investing activities:	
Purchase of investments	(4,036,991)
Investment earnings	604,978
Net cash flows from investment activities:	(3,432,013)
Net Increase (Decrease) in Cash and Cash Equivalents	23,011,873
Cash and Cash Equivalents, July 1, 2001, as Reported	18,437,256
Change in reporting entity	1,509,064
Cash and Cash Equivalents, July 1, 2001, as Restated	19,946,320
Cash and Cash Equivalents, June 30, 2002	$ 42,958,193

The notes are an integral part of the financial statements

Operating Income (Loss)	$ (46,255,148)
Adjustment to Reconcile Operating Income to	
Net Cash Flows from Operating Activities:	
Depreciation	7,536,722
Provision for loan defaults	274,252
Loan principle repayments	1,240,775
Loans issued	(1,191,269)
Forgiven loans	168,847
Change in assets and liabilities:	
Accounts receivable	(394,173)
Grants receivable	(501,168)
Inventories	(6,827)
Other assets	(1,283,257)
Accounts payable	1,737,211
Salaries payable	2,067,374
Compensated absences payable	(214,704)
Workers compensation payable	45,685
Funds held in trust	(258,205)
Deferred revenues	254,939
Other liabilities	138,248
Net reconciling items to be added (deducted) from operating income	9,614,450
Net cash flow from operating activities	$ (36,640,698)

MINNESOTA STATE UNIVERSITY, MANKATO
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2002

1. SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES

Basis of Presentation — The reporting policies of Minnesota State University, Mankato member of Minnesota State Colleges and Universities, conform to generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB). The statement of net assets, statement of revenues, expenses and changes in net assets and statement of cash flows include financial activities of Minnesota State University, Mankato.

Financial Reporting Entity — Minnesota State Colleges and Universities is an agency of the State of Minnesota and receives appropriations from the state legislature, substantially all of which are used to fund general operations. Minnesota State University, Mankato, receives a portion of the Minnesota State Colleges and Universities appropriation. The operations of most student organizations, including the student senate, are included in the reporting entity because the Board of Trustees has certain fiduciary responsibilities for these resources. Organizations that are not financially accountable to Minnesota State University, Mankato, such as the Minnesota State University, Mankato Foundation, Inc., are not included.

Basis of Accounting — The basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. The accrual basis is used in preparation of all financial statements. Revenues are recognized when they are earned and expenses are recognized as they are incurred. The university reports as a business-type activity, as defined by GASB Statement No. 35.

Minnesota State Colleges and Universities applies all applicable Financial Accounting Standards Board pronouncements issued prior to November 30, 1989, and GASB statements issued since that date.

Budgetary Accounting — University budgetary accounting, which is the basis for annual budgets and the allocation of state appropriations, differs from GAAP. University budgetary accounting includes all receipts and expenses up to the close of the books in September for the budget fiscal year. Revenues not yet received by the close of the books are not included. The criterion for recognizing expenses is the actual disbursement, not when the goods or services are received.

The State of Minnesota operates on a two-year (biennial) budget cycle ending on June 30 of odd-numbered years. Minnesota State Colleges and Universities is governed by a 15-member Board of Trustees appointed by the Governor with the advice and consent of the state senate. The Board approves the annual allocations to the colleges and universities.

Budgetary control is maintained at the university. The university President has the authority and responsibility to administer the budget and can transfer money between programs within the university without Board approval. The budget of the university can be legally amended by the authority of the Vice Chancellor/Chief Financial Officer.

The state appropriations do not lapse at year-end. Any unexpended appropriation from the first year of a biennium is available for the second year. Any unexpended balance may also carry over into the next biennium.

Cash and Cash Equivalents — At June 30, 2002, the cash balance represents cash in the state treasury and in demand deposits in local bank accounts as well as cash equivalents. Cash equivalents are short-term, highly liquid investments having original maturities (remaining time to maturity at acquisition) of three months or less. Cash and cash equivalents include amounts in demand deposits, savings accounts, cash management pools, repurchase agreements and money market funds.

All balances related to the state appropriation, tuition revenues and most fees are in the state treasury. The university also has three accounts in local banks. The activities handled through local banks include financial aid, student payroll, auxiliary and student activities.

Investments — The Minnesota State Board of Investment invests the university's balances in the treasury, except for the Revenue Fund, as part of a state investment pool. This cash is reported as a cash equivalent. Cash in the Revenue Fund is invested separately. The fund contracts with the Minnesota State Board of Investment for investment management services.

Investments are reported at fair value.

Receivables and Payables — Receivables are shown net of an allowance for uncollectibles. Notes payable consists of State Energy Efficiency Program loans and future Taylor Center obligations. Loans received under the State Energy Efficiency Program are interest free. Energy companies grant the loans in order to improve energy efficiency in university buildings.

Inventories — Inventories are valued at cost using the first-in first-out and actual cost methods.

Capital Assets — Capital assets are recorded at cost or, for donated assets, at fair value at the date of acquisition. Estimated historical cost has been used when actual cost is not available. Such assets are depreciated or amortized on a straight-line basis over the useful life of the assets. Estimated useful lives are as follows:

Buildings	35-40 years
Building Improvements	20 years
Equipment	3-20 years
Library Collections	7 years

Equipment includes all items over $2,000. All buildings, building improvements, land and library collection purchases are capitalized.

Long-Term Liabilities — The State of Minnesota appropriates for and sells general obligation bonds to support construction and renovation of the Minnesota State Colleges and Universities' facilities as approved through the state's capital budget process. The university is responsible for a portion of the debt service on the bonds sold for some university projects. The university may also enter into capital lease agreements for certain capital assets. Other long-term liabilities include notes payable, compensated absences and workers' compensation claims.

Minnesota State Colleges and Universities may finance the construction, renovation and acquisition of facilities for student residences and student unions through the sale of revenue bonds. These activities are accounted for and reported in the Revenue Fund. Details on the Revenue Fund bonds are available in the separately audited and issued Revenue Fund financial report.

Operating Activities — Operating activities as reported in the statement of revenues, expenses and changes in net assets are those that generally result from exchange transactions such as payments received for providing services and payments made for services or goods received. Nearly all of the university's expenses are from exchange transactions. Certain significant revenue streams relied upon for operations are recorded as nonoperating revenues, as defined by GASB Statement No. 35, including state appropriations and investment income.

Deferred Revenue — Deferred revenue consists primarily of tuition received but not yet earned for summer session. It also includes amounts received from grants which have not yet been earned under the terms of the agreement.

Tuition, fees, room and board, sales and services — Tuition, fees and room and board are presented net of scholarships. Sales and services are net of cost of goods sold.

Changes in Accounting Principles — In fiscal year 2002, Minnesota State University, Mankato adopted GASB Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities,* as amended by GASB Statements No. 37 and No. 38. This statement establishes standards for external financial reporting for public colleges and universities and requires that resources be classified for accounting and reporting purposes into the following three net asset categories:

* Invested in capital assets, net of related debt: Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.
* Restricted: Net assets subject to externally-imposed stipulations. Net asset restrictions for the university are as follows:
  - *Restricted for donations* — restricted per donor requests.
  - *Restricted for capital projects* — restricted for completion of capital projects.
  - *Restricted for debt service* — legally restricted for bond debt repayments.
  - *Restricted for faculty contract obligations* — amounts for faculty development and travel as required by various faculty contracts.
  - *Restricted for loans* — university capital contributed for Perkins loans
  - *Restricted for legislatively mandated programs* — programs where appropriation law restricts the use of the funds for various programs.
  - *Restricted for bond interest earnings* — bond interest that can only be used for capital projects.
  - *Restricted for bond covenants* — revenue bond restrictions.
* Unrestricted: Net assets that are not subject to externally-imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of management, Office of the Chancellor or the Board of Trustees.

The cumulative effect of adopting GASB Statement No. 35 is $37,107,448.

New Accounting Pronouncement — In May 2002, the GASB issued Statement No. 39, *Determining Whether Certain Organizations are Component Units*. This statement is effective for the university for the year ending June 30, 2004. Generally, this statement requires reporting, as a component unit, an organization that raises and holds economic resources for the direct benefit of a governmental unit. The university has not yet determined the effect GASB Statement No. 39 will have on its fiscal year 2004 financial statements.

2. CASH, CASH EQUIVALENTS AND INVESTMENTS

Cash and Cash Equivalents — All balances related to the appropriation, tuition and most fees are in the state treasury. In addition, the university has one checking and two savings accounts in local banks. The activities handled through local banks include financial aid, student payroll, and auxiliary and student activities.

Minnesota Statute, Section 9.031 requires that deposits be secured by depository insurance or a combination of depository insurance and collateral securities held in the state's name by an agent of the state. This statute further requires that such insurance and collateral shall be in amounts sufficient to ensure that the deposits do not exceed 90 percent of the sum of the insured amount and the fair value of the collateral.

Minnesota State University, Mankato was not fully collateralized for 63 days during the year. The maximum amount under collateralized during the year was $613,477. As of June 30, 2002, Minnesota State University, Mankato was under collateralized in the amount of $65,876.

Cash and cash equivalents are categorized to give an indication of the level of credit risk. Category 1 includes cash and cash equivalents insured or collateralized with securities held by the state or its agent in the state or university's name. Category 2 includes cash and cash equivalents collateralized with securities held by the pledging financial institution's trust department or agent in the university's name. Category 3 includes uncollateralized cash and cash equivalents.

	Risk Category			
Carrying Amount	1	2	3	Total
Cash - in bank	$ 566,930	$ -	$ 65,876	$ 632,806
Money market	2,946,899	-	-	2,946,899
Cash - treasury account	39,378,488	-	-	39,378,488
Total	$ 42,892,317	$ -	$ 65,876	$ 42,958,193

At June 30, 2002, the university's local bank balances were $4,124,334. These balances were adjusted by items in transit to arrive at the university's cash in bank balance.

The university's balance in the treasury, except for the Revenue Fund, is invested by the Minnesota State Board of Investment as part of the state investment pool. This cash is reported as a cash equivalent. Cash in the Revenue Fund is invested separately. The fund contracts with the Minnesota State Board of Investment for investment management services.

Investments — Minnesota Statute, Section 11A.24 broadly restricts investment of cash in the state treasury to obligations and stocks of U.S. and Canadian governments, their agencies, and their registered corporations, short-term obligations of specific high quality, restricted participation in venture capital, real estate or resource equity investments and restricted participation in registered mutual funds. Investments of cash in local bank accounts are limited by the same statute.

Investments are categorized to give an indication of the level of credit risk. Category 1 includes securities insured or registered or held by the university or its agent in the university's name. Risk category 2 investments include uninsured and unregistered securities held by the pledging institution's trust department or agent in the university's name. Investments in risk category 3 include uninsured and unregistered securities held by the pledging institution's trust department or agent, but not in the university's name. All of the university's investments are in risk category 1.

Investment Type	Fair Value
Certificates of deposit	$ 489,867
Commercial paper	2,441,788
Treasury bills	2,759,355
GNMA	248,563
Bonds	1,025,188
Other investments	305,038
Total	$ 7,269,799

Securities Lending Transactions — State statutes do not prohibit the State of Minnesota from participating in securities lending transactions. The Minnesota State Board of Investment has, by way of Custodial Trust Agreements, authorized State Street Bank and Trust Company (State Street) and Wells Fargo Bank, Minnesota, N.A., ("Wells Fargo") to act as agents in lending Minnesota's securities to broker-dealers and banks pursuant to a form of loan agreement.

During the fiscal year, State Street and Wells Fargo lent on behalf of the State of Minnesota certain securities held by State Street and Wells Fargo as custodian and received cash (both United States and foreign currency) and securities issued or guaranteed by the United States government, sovereign debt of foreign countries and irrevocable bank letters of credit as collateral. Neither State Street nor Wells Fargo has the ability to pledge or sell collateral securities absent a borrower default. Borrowers were required to deliver collateral for each loan in amounts equal to not less than 100 percent of the fair value of the loaned securities.

The State of Minnesota did not impose any restrictions during the fiscal year on the amount of the loans that either State Street or Wells Fargo made on its behalf. State Street indemnified the State of Minnesota by agreeing to purchase replacement securities or return the cash collateral in the event a borrower failed to return a loaned security or pay distributions thereon. Wells Fargo protects the State of Minnesota by purchasing replacement securities or returning the cash collateral. No borrower failed to return loaned securities or pay distributions thereon during the fiscal year. In addition, there were no losses during the fiscal year resulting from default of the borrowers, State Street or Wells Fargo. On June 30, 2002, the State of Minnesota had no credit risk from borrowers.

Securities Lending Analysis
June 30, 2002

	Wells Fargo	State Street
Fair value of securities on loan	$547,122,619	$3,268,957,488
Collateral held	553,508,488	3,357,511,244
Average duration	40 days	66 days
Average weighted maturity	40 days	423 days

During the fiscal year, the State of Minnesota and the borrowers maintained the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested in the separately managed funds of the Minnesota State Board of Investment. Because the loans were terminable at will, their duration did not generally match the duration of the investments made with cash collateral. On June 30, 2002, the State of Minnesota had no credit risk exposure to borrowers.

Minnesota State Colleges and Universities' portion of the securities lending collateral was allocated to the colleges and universities. The university's portion of the allocation is $2,607,739.

3. LOANS RECEIVABLE

Loans receivable balance includes loans under the Federal Perkins Loan Program. The federal government provides most of the funding for the loans with amounts collected used for new loan advances. Minnesota State Colleges and Universities' loan collections unit is responsible for loan collections for the university. At June 30, 2002, the total loans receivable for this program was $7,019,981 less an allowance for uncollectible loans of $274,252.

4. ACCOUNTS RECEIVABLE

The accounts receivable balance is made up primarily of receivables from individuals and businesses. At June 30, 2002, the total accounts receivable balance for the university was $2,624,717 less an allowance for uncollectible receivables of $650,000

The allowance for uncollectible accounts is based on historical data and professional judgment.

5. PREPAID ASSETS

Prepaid assets consist of $392,219 that has been deposited in the state's Debt Service Fund for future general obligation bond payments. Minnesota Statute, Section 16A.641 requires all state agencies to have on hand on December 1, of each year an amount sufficient to pay all general obligation bond principal and interest due, and to become due, through July 1 of the second year.

The remaining $134,770 in prepaid assets represents the health insurance premium for faculty who are employed only nine months of the year.

6. CAPITAL ASSETS

Adjusted beginning balances include the cumulative effect of changes in accounting principles for those assets that were previously reported in the general fixed asset account group and for previously reported beginning balances for enterprise type activity. Equipment includes all items over $2,000 which is consistent with the enterprise activities that were previously reported in the financial statements. This is a change from the threshold level previously reported in the general fixed asset account group.

A summary of changes in capital assets follows:

	Adjusted Beginning Balance	Increases	Decreases	Completed Construction	Ending Balance
Capital Assets, not depreciated:					
Land and improvements	$ 910,695	$ -	$ -	$ -	$ 910,695
Construction in progress	11,614,013	4,204,206	-	(10,562,263)	5,255,956
Total capital assets, not depreciated	12,524,708	4,204,206	-	(10,562,263)	6,166,651
Capital assets, being depreciated:					
Buildings and improvements	109,920,567	22,625,647	-	10,562,263	143,108,477
Equipment	27,401,680	3,210,104	3,832,650	-	26,779,134
Library collections	6,827,860	1,154,959	-	-	7,982,819
Total capital assets, depreciated	144,150,107	26,990,710	3,832,650	10,562,263	177,870,430
Less accumulated depreciation:					
Buildings and improvements	60,154,401	3,774,913	-	-	63,929,314
Equipment	18,003,489	2,619,704	2,771,143	-	17,852,050
Library collections	3,127,502	1,140,403	-	-	4,267,905
Total accumulated depreciation	81,285,392	7,535,020	2,771,143	-	86,049,269
Total capital assets, depreciated, net	62,864,715	19,455,690	1,061,507	10,562,263	91,821,161
Total capital assets, net	$ 75,389,423	$ 23,659,896	$ 1,061,507	$ -	$ 97,987,812

7. LONG-TERM OBLIGATIONS

Adjusted beginning balances include the cumulative effect of changes in accounting principles for those liabilities that were previously reported in the general long term obligation account group and previously reported beginning balances for enterprise type activity.

A summary of long-term obligations at June 30, 2002, and the changes during the fiscal year are as follows:

	Adjusted Beginning Balance	Increases	Decreases	Ending Balance
Liabilities for:				
General obligation bonds	$ 2,216,663	$ 1,495,042	$ 204,302	$ 3,507,403
Revenue bonds	-	18,920,285	-	18,920,285
Compensated absences	8,617,939	184,035	-	8,801,974
Workers' compensation	81,047	45,685	-	126,732
Capital leases	977,273	26,750	209,460	794,563
Capital contributions	7,043,288	-	288,372	6,754,916
Notes payable	846,836	-	336,097	510,739
Totals	$19,783,046	$20,671,797	$ 1,038,231	$39,416,612

Revenue Bonds — The Revenue Fund is authorized by Minnesota Statute, Section 136F.98 to issue revenue bonds whose aggregate principal shall not exceed $100,000,000 at any time. The proceeds of these bonds are used to finance the acquisition, construction and remodeling of buildings for dormitory, residence hall, student union and food service purposes at six of the state universities.

On April 18, 2001, the Board of Trustees authorized the defeasance of current debt which was completed on June 18, 2001, leaving an authorized but unissued principal amount of $100,000,000 as of June 30, 2001. On February 19, 2002, revenue bonds were issued totaling $36,275,000. The revenue bond liability included in these financial statements represents the university's share.

General Obligation Bonds Liability — The State of Minnesota sells general obligation bonds to finance most of the Minnesota State Colleges and Universities' capital projects. The interest rate on these bonds ranges from 2.5 to 7.0 percent. The Minnesota State Colleges and Universities is responsible for paying one-third of the debt service for certain general obligation bonds sold for those capital projects, as specified in the authorizing legislation. This debt obligation is allocated to the colleges and universities based upon the specific projects funded. The general obligation bond liability included in these financial statements represents the university's share.

Compensated Absences — University employees accrue vacation leave, sick leave and compensatory leave at various rates within limits specified in the collective bargaining agreements. The liability for compensated absences is payable as severance pay under specific conditions. Such leave is liquidated in cash only at the time of termination from state employment.

Workers' Compensation — The reported liability for workers' compensation of $126,732 is based on claims filed for injuries to state employees occurring prior to June 30, 2002.

Capital Contributions — The $6,754,916 liability represents the amount the university would owe the federal government if it were to discontinue the Perkins loan program.

Capital Leases — Leases that meet the criteria of GASB Statement No.1. See Note 8 for details.

Notes Payable — State Energy Efficiency Program loans.

Principal and interest payment schedules are provided in the following table for revenue bonds, general obligation bonds, notes payable and capital leases. There are no payment schedules for compensated absences, workers' compensation or capital contributions.

Long term debt repayment schedule:

Fiscal Years	Notes Payable	Revenue Fund	General Obligation Bonds	Capital Leases	Totals
2003	$ 292,560	$ 1,184,689	$ 402,046	$ 218,330	$ 2,097,625
2004	170,881	1,554,381	439,630	137,306	2,302,198
2005	47,298	1,552,943	425,476	122,760	2,148,477
2006	-	1,552,135	410,731	122,760	2,085,626
2007	-	1,552,613	398,929	122,760	2,074,302
2008-2012	-	7,774,414	1,634,632	267,509	9,676,555
2013-2017	-	7,788,290	767,184	-	8,555,474
2018-2022	-	7,777,835	445,664	-	8,223,499
2023-2027	-	1,558,443	-	-	1,558,443
Total Payments	$ 510,739	$ 32,295,743	$ 4,924,292	$ 991,425	$ 38,722,199
Interest	-	(13,375,458)	(1,416,889)	(196,862)	(14,989,209)
Total Principal	$ 510,739	$ 18,920,285	$ 3,507,403	$ 794,563	$ 23,732,990

8. ACCOUNTS PAYABLE

Accounts payable represent amounts due at June 30, 2002 for goods and services received prior to the end of the fiscal year. The following is a summary of payables at June 30, 2002:

Supplies	$ 1,258,537
Capital projects	1,222,639
Purchased services	627,515
Operating leases	552,125
Other payables	539,875
Total	$ 4,200,691

9. LEASE AGREEMENTS

Operating Leases — The university is committed under various leases primarily for building space. These leases are considered for accounting purposes to be operating leases. Lease expenses for the year ended June 30, 2002, totaled approximately $552,125. Future minimum lease payments for existing lease agreements are as follows:

Year Ending June 30	Amount
2003	$ 537,500
2004	1,061,395
Total	$ 1,598,895

Capital Leases — The university has entered into several capital lease agreements. The leases meet the criteria of a capital lease as defined by the Financial Accounting Standards Board pronouncement No. 13, *Accounting for Leases*, which defines a capital lease generally as one which transfers benefits and risk of ownership to the lessee. The terms of each agreement provide options to purchase at any time during the lease period. Current and noncurrent portions are reported separately.

Outstanding capital leases include the Warren Street Building. The university is leasing this building from the foundation over a 30 year period at the end of which (fiscal year 2010) ownership of the building will be transferred to the university. The university is also leasing laptop computers. This lease will expire within the next two years.

10. EMPLOYEE PENSION PLANS

The Minnesota State Colleges and Universities participate in three retirement plans: the State Employees Retirement Fund administered by the Minnesota State Retirement System, the Teachers Retirement Fund administered by the Minnesota Teachers Retirement Association and the Minnesota State Colleges and Universities Defined Contribution Retirement Plan.

State Employees Retirement Fund (SERF) —

Pension fund information is provided by the Minnesota State Retirement System (MSRS), who prepares and publishes their own stand-alone comprehensive annual financial report, including financial statements and required supplementary information. Copies of the report may be obtained directly from MSRS at 60 Empire Drive, Suite 300, St. Paul, Minnesota 55103-3000.

The SERF is a cost sharing multiple employer defined benefit plan. All classified employees are covered by this plan. The annuity formula is the greater of a step rate with a flat rate reduction for each month of early retirement, or a level rate (the higher step rate) with an actuarial reduction for early retirement. The applicable rates are 1.2 and 1.7 percent. Minnesota State Colleges and Universities, as an employer for some participants, are liable for a portion of any unfunded accrued liability of this fund.

The statutory authority for SERF is Minnesota Statute, Chapter 352. The funding requirements are 4 percent for both employer and employee. Actual contributions were 100 percent of required contributions. Required contributions for Minnesota State University, Mankato were:

Fiscal Year	Amount
2002	$692,359
2001	666,260
2000	624,244

Teachers Retirement Fund (TRF) —

Pension fund information is provided by the Minnesota Teachers Retirement Association (TRA), who prepares and publishes their own stand-alone comprehensive annual financial report, including financial statements and required supplementary information. Copies of the report may be obtained directly from TRA at 60 Empire Drive, Suite 400, St. Paul, MN 55103.

The TRF is a cost sharing multiple employer defined benefit plan. Teachers and other related professionals may participate in TRF. The annuity formula is the greater of a step rate with a flat reduction for each month of early retirement, or a level rate (the higher step rate) with an actuarially based reduction for early retirement. The applicable rates for basic members are 2.2 and 2.7 percent, and for coordinated members, 1.2 and 1.7 percent. Minnesota State Colleges and Universities, an employer for some participants, is liable for a portion of any unfunded accrued liability of this fund. Currently, TRF does not have an unfunded actuarial accrued liability.

The statutory authority for TRF is Minnesota Statute, Chapter 354. The funding requirements are 5 percent for both employer and employee. Actual contributions were 100 percent of required contributions. Required contributions for Minnesota State University, Mankato were:

Fiscal Year	Amount
2002	$691,088
2001	745,517
2000	785,721

Minnesota State Colleges and Universities Defined Contribution Retirement Fund —

General Information — The fund includes two plans; an Individual Retirement Account Plan (IRAP) and a Supplemental Retirement Plan (SRP). Both plans are mandatory tax-deferred, single employer defined contribution plans authorized by Minnesota Statute, Chapters 354B and 354C. The plans are designed to provide retirement benefits to Minnesota State Colleges and Universities unclassified employees. The plans cover unclassified teachers, librarians, administrators and certain other staff who have been employed full-time for a minimum of two academic years. The plans are mandatory for qualified employees. Vesting occurs immediately. The administrative agent of the two plans is Wells Fargo bank.

I.R.A.P. —

Participation — Each employee who is in unclassified service is required to participate in TRA or IRAP upon achieving eligibility. Eligibility begins with the employment contract for the first year of unclassified service in which the employee is hired for more than 25 percent of a full academic year, excluding summer session. An employee remains a participant of the plan, even if he/she is employed for less than 25 percent of a full academic year in subsequent years.

Contributions — There are two member groups participating in the IRAP; a faculty group and an administrators group. For faculty, the employer and employee statutory contribution rates are 6.0 and 4.5 percent, respectively. For administrators, the employer rate is 6.0 percent and the employee rate is 4.0 percent. The contributions are made under the authority of Minnesota Statute, Chapter 354B. Required contributions for Minnesota State University, Mankato were:

Fiscal Year	Employer	Employee
2002	$1,627,402	$1,207,084
2001	1,473,363	1,097,106
2000	1,310,148	974,473

S.R.P. —

Participation — Each unclassified employee who has completed two full-time years of unclassified service with Minnesota State Colleges and Universities must participate upon achieving eligibility. The eligible employee is enrolled on the 1st day of the fiscal year following completion of two full-time years.

Contributions — Participants contribute to the SRP portion of the plan 5 percent of the eligible compensation as noted below:

Member Group	Eligible Compensation	Maximum Annual Contribution
Inter Faculty Organization (IFO)	$6,000 to $50,000	$2,200
Minnesota State University Association of Administrative and Service Faculty (MSUAASF)	$6,000 to $48,000	$2,100
Administrators	$6,000 to $46,000	$2,000

The university matches amounts equal to the contributions made by participants. The contributions are made under the authority of Minnesota Statute, Chapter 354B. Required contributions for Minnesota State University, Mankato were as follows:

Fiscal Year	Amount
2002	$963,725
2001	962,013
2000	875,347

11. CONTINGENT LIABILITIES – LITIGATION

Lawsuits furnish a basis for potential liability. The following cases, or categories of cases, in which Minnesota State University, Mankato, its officers or employees are defendants have been noted because an adverse decision in each case or category of cases could result in an expenditure of monies of over $100,000.

> *Burum v. Minnesota State University, Mankato.* Federal District Court, District of Minnesota. The suit alleges discrimination in pay. The case has been certified as a class action. Trial is scheduled for early 2003. The university is contesting the case vigorously, but if unsuccessful, plaintiffs' may claim in excess of $1,000,000.

12. POSTRETIREMENT BENEFITS

The faculty contracts have provided early retirement incentives for faculty meeting specific requirements. The specific circumstances usually pertain to faculty members hired before June 30, 1996, and require the faculty member to have served a specified number of years of service. The faculty member has the right to continue, at the employer's expense, health insurance benefits for one year after separation.

The cost of health insurance benefits and early retirement incentives was $175,468 and $569,275 respectively during fiscal year 2002. Forty-one Minnesota State University, Mankato retired faculty currently receive the health insurance benefit.

13. RISK MANAGEMENT

Minnesota State Colleges and Universities is exposed to various risks of loss related to tort; theft of, damage to, or destruction of assets; error or omissions; and employer obligations. Minnesota State Colleges and Universities manage these risks through State of Minnesota insurance plans including the State of Minnesota Risk Management Fund and through purchased insurance coverage.

Automobile liability coverage is required by the state and is provided by the Risk Management Fund. Some campuses also purchase optional physical damage coverage for their newest or most expensive vehicles.

While property and casualty coverage is required by Minnesota State Colleges and Universities policy, campuses may select optional coverage such as international accident, international liability, professional liability for employed physicians and student health services professional liability. The Risk Management Fund also provides these coverages.

Property coverages offer institutions a deductible between $1,000 and $100,000; the Risk Management Fund covers the balance of the claim up to $500,000. The primary reinsurer covers losses up to $25,000,000 after which the excess loss is shared among three reinsurers up to $400,000,000. The liability coverage is up to the statutory limit of $300,000 per person for property damage or $1,000,000 for bodily injury per occurrence. Once annual losses paid by the Risk Management Fund reach $3,500,000, the reinsurer will cover those losses in excess of the covered deductible. The fund must pay a $10,000 maintenance deductible for each of these additional claims.

Minnesota State University, Mankato retains the risk of loss. The university did not have any settlements in excess of coverage for the last 3 years.

The Risk Management Fund purchases other insurance on the open market for some campuses. These generally include student intern professional liability, dental clinics professional liability, aviation insurance and a variety of bonds.

Minnesota State Colleges and Universities participates in State Employee Group Insurance Plan, which provides life insurance, hospital, medical and dental benefits coverage through provider organizations.

Workers' compensation is covered through state participation in the Workers' Compensation Reinsurance Association, which pays for catastrophic workers' compensation claims. Other workers' compensation risks are covered through self-insurance for which Minnesota State Colleges and Universities pays the cost of claims through the State Workers' Compensation Fund. A Minnesota State Colleges and Universities' Workers' Compensation Payment Pool helps institutions manage the volatility of such claims. Annual premiums are assessed by the pool based on salary dollars. From this pool all workers' compensation claims are paid to the State Workers' Compensation Fund.

The following table presents changes in the balances of workers' compensation claims liability during the fiscal years ended June 30, 2001 and 2002.

	Beginning Liability	Net Additions and Changes	Payments	Ending Liability
Fiscal Year Ended 6/30/01	$ 149,804	334,067	402,824	81,047
Fiscal Year Ended 6/30/02	$ 81,047	334,411	288,726	126,732

14. SEGMENT INFORMATION

A segment is an identifiable activity reported as a stand-alone entity for which one or more revenue bonds are outstanding. A segment has a specific identifiable revenue stream pledged in support of revenue bonds and has related expenses, gains and losses, assets and liabilities that are required by an external party to be accounted for separately. The university has one segment that meets the reporting requirements of GASB Statement No. 35.

Minnesota State Colleges and Universities issues revenue bonds to finance the university dormitories and student unions. Summary financial information for the Minnesota State University, Mankato portion of the Revenue Fund follows.

Summary financial information:

	Revenue Fund
CONDENSED STATEMENT OF NET ASSETS	
Assets:	
Current assets	$ 4,376,419
Restricted assets	19,852,721
Capital assets	16,648,525
Total assets	40,877,665
Liabilities:	
Current liabilities	1,739,099
Noncurrent liabilities	19,224,784
Total liabilities	20,963,883
Net Assets:	
Invested in capital assets, net of related debt	16,758,058
Restricted	
Capital projects	782,954
Bond interest earnings	256,558
Bond covenants	2,116,212
Total net assets	$ 19,913,782
CONDENSED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS	
Operating revenues	$ 13,277,403
Operating expenses	12,145,779
Net operating income	1,131,624
Nonoperating revenues/expenses	(179,114)
Change in net assets	952,510
Net assets - beginning of year as restated	18,961,272
Net assets - end of year	$ 19,913,782
CONDENSED STATEMENT OF CASH FLOWS	
Net cash provided (used) by	
Operating activities	$ 2,902,840
Investing activities	(4,504,395)
Capital and related financing activities	17,815,756
Net increase (decrease)	16,214,201
Cash - beginning of year	1,673,128
Cash - end of year	$ 17,887,329

15. COMMITMENTS

In early November of 2002, phase II construction of the Student Athletic Facility is scheduled to be completed. The estimated cost of phase II is $9,851,000.

16. CHANGES IN ACCOUNTING PRINCIPLES AND REPORTING ENTITY

Changes in Accounting Principles — The university implemented GASB Statement No. 35, *Basic Financial Statements - and Management's Discussion and Analysis – for Public Colleges and Universities,* as amended by GASB Statements No. 37 and No. 38. This statement establishes standards for external financial reporting for public colleges and universities. The university is reporting as a business-type activity. Capital assets and long term obligations, previously reported in general fixed assets and general long term obligations account groups, are now reported in the statement of net assets. Other adjustments include the effect of the change from modified to full accrual accounting.

The restatement resulted in the following increases and decreases:

Buildings	$ 33,140,723
Construction in progress	11,614,013
Equipment	8,378,870
Library collections	3,700,358
Land	910,695
Notes payable	(846,836)
Capital leases	(977,273)
Other	(1,419,396)
General obligation bonds	(2,216,663)
Perkins loans	(7,043,288)
Compensated absences payable	(8,133,755)
Total cumulative effect of changes in accounting principles	$ 37,107,448

Change in Reporting Entity — The Project for Automated Library Services (PALS) activity, previously reported as activity of the university, is now reported as activity of the Office of the Chancellor.

The revenue and capital project funds were previously reported at the system wide level. The applicable portion of these funds is now included in the university's financial statements. These changes increased beginning net assets by $18,818,776.

The changes in reporting entity resulted in the following increases and decreases:

Revenue Fund	$18,819,224
Project for Automated Library Services	(1,290,194)
Capital Projects	(448)
Total changes in reporting entity	$17,528,582

SUPPLEMENTARY SECTION

Supplementary Information

The first supplementary schedule shows a generally accepted accounting principle (GAAP to budgetary reconciliation of net assets to fund balance for the General Fund. This reconciliation begins with total assets for all funds from the Statement of Net Assets and reconciles it to the budgetary General Fund balance by eliminating all other fund types and GAAP adjustments. Differences between budgetary and GAAP include the effect of full accrual accounting (revenue and expenses recognized when cash is received or expended).

The budgetary fund balance includes state grant revenue and budgetary restrictions which are eliminated. The remaining fund balance may be designated by the university for Board required reserves and specific programs.

Following the GAAP to budget schedule is a list of fund types and their activities.

The last section includes the Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets presented by fund type. These statements were prepared using full accrual accounting for all fund types, with the exception of the interfund activities which were not eliminated, and the scholarship allowances which were not applied to these statements.

MINNESOTA STATE UNIVERSITY, MANKATO
Reconciliation of Net Assets to Budgetary General Fund Balance
As of June 30, 2002

Total net assets	$ 104,755,750
Less	
Imprest cash	(23,796)
Enterprise	(3,010,464)
Revenue	(19,913,782)
Special revenue	(2,138,324)
General & Capital Project funds net assets, net of imprest cash	79,669,384
Add (subtract) GAAP adjustments	
Assets	
Accounts receivable	(1,322,019)
Grants receivable	(216,050)
Prepaid assets	(526,988)
Other assets	(24,493)
Due from other funds	(3,839,688)
Capital assets net of accumulated depreciation	(80,552,039)
Liabilities	
Accounts payable	2,576,643
Salaries payable	7,840,193
Deferred revenue	679,526
General obligation bonds payable	3,507,403
Compensated absences	8,155,723
Workers' compensation	126,732
Capital leases payable	794,564
Notes payable	510,739
Other liabilities	40
Payable to other funds	3,940,824
Add capital project cash	461,796
Add (subtract) cash basis activity after June 30	
Transfers	3,055,400
Transfer summer session revenues to fiscal year 2003	(2,926,257)
Cash receipts	517,060
Cash expenditures	(13,377,308)
Budgetary fund balance	9,051,185
Less state grant appropriation	(76,721)
General fund appropriation	8,974,464
Less restrictions:	
Faculty contract obligations	(825,927)
Less designations:	
Designated for programs	(4,877,813)
Board required reserve	(2,265,963)
Prior year encumbrances	(104,763)
Balance FY 2003 budget	-
Planned for FY2004 budget	(899,998)
Undesignated budgetary fund balance	$ -

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FUND TYPES

Activities included in the fund types are as follows:

GENERAL FUND
- General operations
- Customized training
- State grants
- Capital projects
- Imprest cash

SPECIAL REVENUE
- Student activities
- Health services
- Intercollegiate activities
- Child care
- Federal grants
- Federal financial aid
- State financial aid
- Private gifts and grants
- Miscellaneous special revenues
- Private scholarships
- Endowments

ENTERPRISE
- Computer store
- Food service
- Parking

REVENUE
- Residence halls
- Student union

AGENCY
- Custodial accounts
- Temporary accounts

MINNESOTA STATE UNIVERSITY, MANKATO
Statement of Net Assets
As of June 30, 2002

	General	Special Revenue	Enterprise
Assets			
Cash and cash equivalents	$ 21,344,290	$ 201,897	$ 2,262,870
Investments	-	1,503,013	565,643
Interest receivable	-	25,947	591
Grants receivable	216,050	622,270	-
Accounts receivable, net of allowance of $650,000	1,322,019	104,664	233,726
Prepaid assets	526,988	-	-
Inventory	-	-	33,280
Restricted assets	-	-	-
Loans receivable, net of allowance of $274,252	-	-	6,745,729
Other assets	24,493	-	-
Due from other funds	3,839,688	1,072,223	815,890
Securities lending collateral	2,265,926	-	-
Total current and noncurrent assets	29,539,454	3,530,014	10,657,729
Capital Assets			
Construction in progress	5,146,423	-	-
Equipment	24,860,083	-	1,020,895
Library collections	7,982,819	-	-
Buildings and improvements	104,120,053	-	-
Land	910,695	-	-
Less accumulated depreciation	(62,468,034)	-	(343,180)
Total capital assets	80,552,039	-	677,715
Total Assets	110,091,493	3,530,014	11,335,444
Liabilities			
Salaries payable	7,840,193	275,268	20,871
Accounts payable	2,576,643	70,009	286,432
Deferred revenue	679,526	133,602	301,704
Funds held in trust	-	-	-
Notes payable	510,739	-	-
Capital lease payable	794,564	-	-
Compensated absences	8,155,723	247,844	51,395
Workers' compensation payable	126,732	-	-
Revenue bond funds payable	-	-	-
General obligation bonds payable	3,507,403	-	-
Capital contributions payable	-	-	6,754,916
Other liabilities	40	58,542	22,593
Payable to other funds	3,940,824	606,425	887,069
Securities lending collateral	2,265,926	-	-
Total liabilities	30,398,313	1,391,690	8,324,980
Net Assets			
Invested in capital assets, net of related debt	75,739,333	-	677,715
Restricted for expendable			
Donations	-	1,287,121	-
Perkins loans	-	-	812,988
Bond interest earnings	-	-	-
Debt service	259,207	-	-
Capital projects	703,204	-	-
Faculty contracts	825,927	-	-
Legislatively mandated programs	1,072,518	-	-
Bond covenants	-	-	-
Unrestricted	1,092,991	851,203	1,519,761
Total Net Assets	$ 79,693,180	$ 2,138,324	$ 3,010,464

Subtotals and totals may not agree due to rounding.

Revenue	Agency	Total
$ 3,411,678	$ 1,261,807	$ 28,482,542
-	-	2,068,656
-	-	26,537
-	-	838,320
244,516	69,792	1,974,717
-	-	526,989
-	-	33,280
19,852,721	-	19,852,721
-	-	6,745,729
-	118,499	142,990
378,412	350,520	6,456,735
341,813	-	2,607,739
24,229,140	1,800,618	69,756,955
-	-	5,146,422
898,156	-	26,779,134
-	-	7,982,819
38,988,424	-	143,108,477
-	-	910,695
(23,238,055)	-	(86,049,269)
16,648,525	-	97,878,278
40,877,665	1,800,618	167,635,233
91,695	20,895	8,248,923
933,174	334,433	4,200,691
332,672	164,068	1,611,572
-	178,176	178,176
-	-	510,739
-	-	794,563
344,244	2,769	8,801,974
-	-	126,732
18,920,285	-	18,920,285
-	-	3,507,403
-	-	6,754,916
-	77,861	159,035
-	1,022,416	6,456,735
341,813	-	2,607,739
20,963,883	1,800,618	62,879,483
16,758,058	-	93,175,106
-	-	1,287,121
-	-	812,988
256,558	-	256,558
-	-	259,207
782,954	-	1,486,158
-	-	825,927
-	-	1,072,518
2,116,212	-	2,116,212
-	-	3,463,955
$ 19,913,782	$ -	$104,755,750

MINNESOTA STATE UNIVERSITY, MANKATO

Statement of Revenues, Expenses and Changes in Net Assets
For the Year Ended June 30, 2002

	General	Special Revenue
Operating Revenues		
Tuition	$ 40,291,431	$ -
Fees	2,747,480	3,138,262
Sales and service, net	1,355,583	2,147,357
Room and board	-	-
Federal grants	-	9,518,634
State grants	632,917	5,710,126
Private grants	22,000	1,080,477
Student loan income	-	-
Other income	923,540	729,465
Total operating revenues	45,972,951	22,324,321
Operating Expenses		
Salaries	74,437,821	5,560,989
Purchased services	5,083,199	1,115,585
Supplies	4,702,997	1,315,331
Repairs and maintenance	1,308,000	168,016
Depreciation and amortization	6,137,143	-
Financial aid	732,031	12,872,982
Other expense	2,753,558	994,281
Total operating expenses	95,154,749	22,027,184
Operating income (loss)	(49,181,798)	297,137
Nonoperating Revenues (Expenses)		
Appropriations	54,027,716	-
Interest income	9,189	46,017
Securities lending income	5,378	-
Interest expense	(45,582)	(24,608)
Grants to other organizations	(133,008)	-
Securities lending rebates / fees	(5,180)	-
Total nonoperating revenue (expenses)	53,858,513	21,409
Income (Loss) Before Other Revenues, Expenses, Gains, or Losses	4,676,715	318,546
Capital appropriation	5,141,437	-
Donated capital assets	16,526,710	-
Transfers in	1,405,786	1,256,808
Transfers out	(1,109,184)	(1,195,647)
Gain (loss) on disposal of capital assets	(1,081,242)	-
Change in net assets	25,560,222	379,707
Total Net Assets - Beginning of Year	8,775,704	2,256,483
Cumulative effect of changes in accounting principles	45,357,702	(497,866)
Change in reporting entity	(448)	-
Total Net Assets - Beginning of Year as Restated	54,132,958	1,758,617
Total Net Assets - End of Year	$ 79,693,180	$ 2,138,324

Subtotals and totals may not agree due to rounding.

Enterprise	Revenue	Total
$ -	$ -	$ 40,291,431
407,954	1,607,575	7,901,270
2,621,550	1,138,347	7,262,837
-	10,474,327	10,474,328
-	-	9,518,634
-	-	6,343,043
86,919	-	1,189,394
139,073	-	139,073
931,936	57,154	2,642,095
4,187,432	13,277,403	85,762,105
743,899	3,752,780	84,495,489
776,929	3,104,101	10,079,814
5,957	911,154	6,935,440
606,248	1,276,419	3,358,683
93,501	1,306,078	7,536,722
120,914	-	13,725,926
342,094	1,795,247	5,885,179
2,689,542	12,145,779	132,017,253
1,497,890	1,131,624	(46,255,148)
-	-	54,027,716
300,302	249,132	604,640
-	-	5,378
(96,271)	(419,603)	(586,064)
-	-	(133,008)
-	-	(5,180)
204,031	(170,471)	53,913,482
1,701,921	961,153	7,658,334
-	-	5,141,437
-	-	16,526,710
841,949	-	3,504,542
(1,199,713)	-	(3,504,542)
-	(8,643)	(1,089,885)
1,344,157	952,510	28,236,596
10,850,937	-	21,883,124
(7,752,388)	-	37,107,448
(1,432,242)	18,961,272	17,528,582
1,666,307	18,961,272	76,519,154
$ 3,010,464	$ 19,913,782	$ 104,755,750

LarsonAllen
Weishair & Co., LLP
ACHIEVE THE DESIRED EFFECT

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Trustees
Minnesota State Colleges and Universities
700 World Trade Center
30 East Seventh Street
St. Paul, Minnesota 55101

We have audited the financial statements of Minnesota State University – Mankato as of and for the year ended June 30, 2002, and have issued our report thereon dated October 11, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance
As part of obtaining reasonable assurance about whether the University's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting
In planning and performing our audit, we considered the University's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting, which we have reported to management of the University in a separate letter dated October 11, 2002.

This report is intended solely for the information and use of the Board of Trustees and management of the University and is not intended to be and should not be used by anyone other than these specified parties.

Larson, Allen, Weishair & Co., LLP

LARSON, ALLEN, WEISHAIR & CO., LLP

October 11, 2002

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